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ABSTRACT

This ninth semiannual report issued by the United States Department of Education's Office of Inspector General (OIG) summarizes the activities and accomplishments of that office during a 6-month period ending September 30, 1984. A condensation of audits of Department of Education aid programs presents statistics on OIG activities and the allocation of audit resources, highlights of significant audits (many of which recommend recovering misspent federal funds), and information of progress toward resolving various audit recommendations. Investigation activities are also noted, including highlights of cases presented and an update of previously reported investigation. Descriptions of steps taken by the OIG to improve the management of internal operations and aid programs covers documents that evaluate or prescribe management practices, as well as internal control reviews and measures to improve the disposal of funds. Miscellaneous other matters reviewed include legislation and regulations affecting the economy of the department. Appendixes include a list of audits for the period covered in the report and a schedule of accounts receivable. Finally, two guides to ethical conduct issued by the OIG are exhibited. (MCG)

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U.S. DEPARTMENT OF EDUCATION

Semi-Annual Report to Congress

APRIL 1, 1984 - SEPTEMBER 30, 1984 **NO. 9**

(Submitted pursuant to Public Law 95-452)

Efforts by the Office of Inspector General this period to prevent and detect fraud, waste and mismanagement continue to provide significant benefits to the Department.

- o OIG audits questioned or recommended disallowance of costs totaling $46.8 million.....p. 1
- o Management made commitments to seek recovery of $35.8 million as a result of audits closed.....p. 15
- o Recoveries on audits resolved amounted to $3.9 million .....p. 16
- o Investigations resulted in 155 indictments and 71 convictions/pleas.....p. 19
- o Assessed fines and restitutions from investigative activities totaled over $640,000.....p. 19

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Office of Inspector General

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U.S. DEPARTMENT OF EDUCATION

Semi-Annual Report to Congress

APRIL 1, 1984 - SEPTEMBER 30, 1984 **NO. 9**

Office of Inspector General

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

OCT 31 1984

Honorable T. H. Bell
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending September 30, 1984.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional committees and subcommittees within 30 days.

Our audit and investigative activities continue to provide the Department with significant results. Costs questioned or recommended for disallowance on audit reports issued this period amounted to $46.8 million. Investigations of wrongdoing have led to 155 indictments and 71 convictions. These and other accomplishments are highlighted in the Executive Summary.

In closing, I would like to take this opportunity to express my appreciation to you and other ED officials for your continued support and cooperation. I look forward to working with you in the coming months, as once again we renew our mutual commitment to the effectiveness and integrity of ED programs and operations.

Sincerely,

James B. Thomas Jr.

James B. Thomas, Jr.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202

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EXECUTIVE SUMMARY

This is the ninth semi-annual report issued by the Department of Education (ED) Office of Inspector General (OIG) pursuant to the provisions of the Inspector General Act of 1978 (P.L. 95-452). The report summarizes the activities and accomplishments of the OIG during the six-month period ending September 30, 1984. Reporting requirements mandated by the Act are indexed in this report on page 34. Following is a brief summary of OIG activities this period.

- We issued or processed a total of 1,448 audit reports on ED operations, grantees and contractors. These reports recommended disallowance of costs totaling $15.9 million and questioned additional costs of $30.9 million (page 1). The reports also identified a number of opportunities for improvement in ED programs by Federal officials, State and local education agencies, and others (page 4).

- In audits resolved this period, a total of $7.2 million, or 63 percent of the $11.5 million recommended for disallowance, and $24.6 million, or 83 percent of the $29.7 million questioned, was sustained by program managers. During the resolution process, program managers identified additional amounts which should be recovered, bringing the total amount recoverable to $35.8 million. Actual audit-related recoveries this period totaled $3.9 million (page 1).

- OIG opened 292 investigative cases and closed 169. OIG investigations resulted in 155 indictments and 71 convictions. Fines and restitutions amounted to $640,736. In addition, investigative activities resulted in recoveries of $291,396 (page 19).

- OIG reviewed 97 legislative proposals and 108 proposed regulations, several of which contained provisions that left the Department potentially vulnerable to fraud or abuse. Through prepared comments and in direct discussions with ED officials, we were able to effect needed improvements (page 30).

Following are examples of significant activities this period.

- Our audit of one local education agency's Title I program disclosed that a total of $3.6 million was improperly expended, over a three-year period, for unallowable services and nonsupplemental activities for educationally deprived children. We recommended that the entire amount be returned to the Federal government (page 5).

- Our audit of vocational education funds in one State agency disclosed that $1.6 million was inadequately accounted for, $4.2 million necessary for maintenance of effort and matching was inadequately documented, and an additional $55,000 was improperly charged. We recommended that the agency provide documentation to account for $1,611,000 or refund the portion that cannot be supported, provide adequate documentation that the requirement for $4,208,000 in non-Federal funds was met, and return $55,000 to the Federal program (page 5).

- An OIG audit of a vocational school's administration of student financial assistance programs disclosed extensive violations of Federal regulations, leading to recommendations for disallowed costs totaling $3.4 million and questioned costs totaling $1.6 million. We recommended that the school refund $3.4 million, plus any portion of the $1.6 million in unsupported disbursements for which the school still was unable to secure adequate documentation (page 11).

- A joint OIG/U.S. Postal Inspection Service investigation led to the grand jury indictment of 21 members of an extended family on multiple counts of conspiracy, student financial assistance fraud, mail fraud, and fraudulent use of Social Security numbers. While the family succeeded in bilking the Federal government out of $44,231, about $42,000 in bogus Guaranteed Student Loans and Pell Grants was stopped prior to disbursement because of evidence uncovered during the investigation (page 22).

- In a pretrial diversion agreement reached with the United States Attorney's office, two former co-owners of a proprietary school made restitution of nearly $111,000 to the Department after an OIG investigation established that the pair had embezzled about $60,000 in Title IV student financial assistance funds from the school's Federal accounts. The restitution includes an assessment for interest (page 22).

- As a result of a lengthy joint FBI/OIG investigation, the president of a business college, on behalf of the corporation, pled guilty to eight counts of making false statements in connection with the misapplication of Federal student financial aid for enrollees. The college was fined $75,000 and in addition made a prepayment of $200,000 to be applied against the school's total liability to the Department (page 23).

- Our review of a draft Federal Register notice outlining a grantback proposal for a State education agency disclosed two major problems that would have resulted in the improper disbursement of more than $77,000. We notified the Department of our concerns and ED officials agreed to recompute the amount of the proposed grantback (page 28).

CHAPTER I

AUDIT ACTIVITIES

A. INTRODUCTION

Audit activities during this period continued to highlight opportunities for improving the economy, efficiency, and effectiveness of programs administered by the Department and by the recipients of ED funds. Our audit reports also included numerous recommendations directed toward recovering Federal funds which were not expended in accordance with program requirements.

Summary statistics and highlights of major audits and related activities are presented in the following sections.

B. SUMMARY STATISTICS

Following are significant audit statistics for this six-month period:

Audit Reports Issued or Processed This Period	
Total Number Issued or Processed	1,448 (*)
Costs Recommended for Disallowance (in millions)	$ 15.9
Costs Questioned (in millions)	$ 30.9
Audit Reports Resolved by Program Managers This Period	
Total Number of Reports Resolved	1,079
Recommendations for Disallowance Sustained (in millions)	$ 7.2(**)
Disallowances Resulting from Audit Costs Questioned (in millions)	$ 24.6(**)
Actual Monetary Recoveries This Period (in millions)	$ 3.9

(*) Includes audit reports for which other Federal agencies are cognizant under OMB Circulars A-102, Attachment P (23) and A-88 (14). Also, included are nine audit reports issued by other Federal agencies covering ED programs. If costs are questioned or recommended for disallowance, this semi-annual report includes only those amounts related to ED program findings.

(**) Does not include an additional $4.0 million identified by program managers during the resolution process but not included in the audit report itself.

As used throughout this report, Costs Recommended for Disallowance represent those expenditures or other uses of Federal funds which the auditor, after reviewing the evidence that is reasonably available, finds (1) were not made in conformance with applicable legal requirements, and (2) represent a significant harm to the Federal interest. Costs Questioned are those expenditures or other uses of Federal funds for which the auditor, after reviewing the evidence that is reasonably available, is unable to make a reliable finding as to their conformance with applicable legal requirements, due to the auditee's failure to account for its use of funds. Amounts that will ultimately be refunded to the Federal government, whether originally classified by the auditors as disallowed or questioned, are dependent upon final determinations made by the responsible program managers and possible subsequent adjudication.

Following is a schedule, by operating component, showing audit reports issued or processed by OIG and related costs recommended for disallowance or questioned.

Schedule of Costs Recommended For Disallowance or Questioned
(Dollars in Millions)

Action Office	Number of Reports Issued	Number of Reports With Monetary Findings	Costs Recommended for Disallowance	Costs Questioned
Postsecondary Education	1,299	317	$ 7.6	$ 6.4
Assistance Management and Procurement Service	76	24	1.0	4.8
Elementary and Secondary Education	33	8	4.6	13.4
Office of Management	2	-	-	-
Other	38	14	2.7	6.3
TOTALS	1,448	363	$ 15.9	$ 30.9

Some of the more significant audits are described in Section D of this chapter.

Audit reports issued this period represent both those audits completed by our own staff and those processed by us which were completed by other Federal auditors; State, institutional, and other non-Federal governmental auditors; and independent public accountants.

Following is a schedule showing the sources of all reports issued or processed and costs recommended for disallowance or questioned.

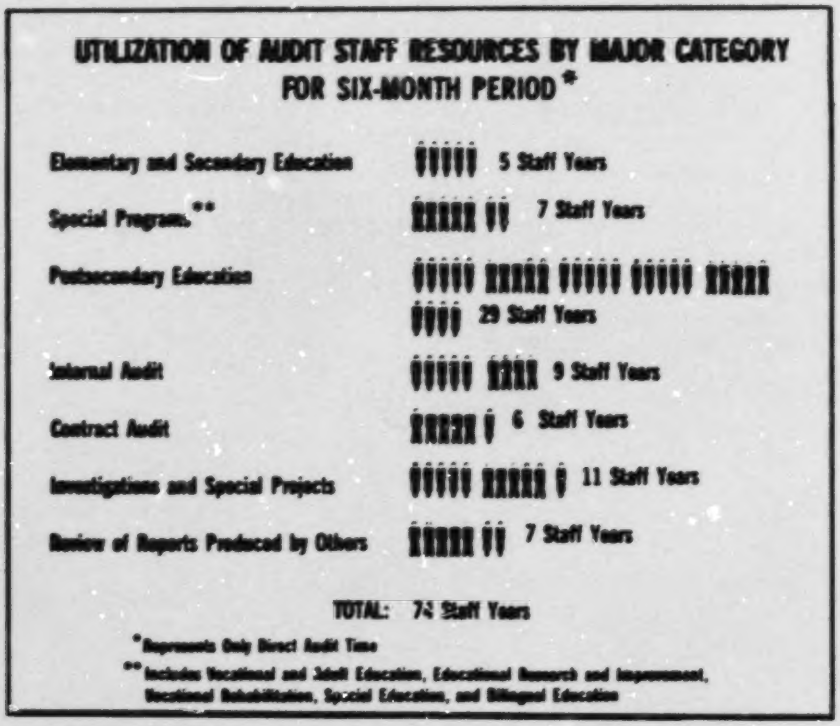
Source of Audit Reports Issued During the Current Six-Month Period Ended September 30, 1984
(Dollars in Millions)

Audit Work Completed by	Number of Reports	Costs Recommended for Disallowance	Costs Questioned
Federal Auditors			
ED-OIG	69	$ 11.3	$ 8.8
Others	9	(*)	(*)
State, Institutional, and Other Non-Federal Governmental Auditors	211	1.6	18.4
Independent Public Accountants	1,159	3.0	3.7
TOTALS	1,448	$ 15.9	$ 30.9

(*) Less than $50,000

C. ALLOCATION OF AUDIT RESOURCES

During this six-month period, ED-OIG resources were utilized to provide audit services to major Departmental programs and activities as depicted below.


UTILIZATION OF AUDIT STAFF RESOURCES BY MAJOR CATEGORY FOR SIX-MONTH PERIOD*
Elementary and Secondary Education
5 Staff Years
Special Programs**
7 Staff Years
Postsecondary Education
29 Staff Years
Internal Audit
9 Staff Years
Contract Audit
6 Staff Years
Investigations and Special Projects
11 Staff Years
Review of Reports Produced by Others
7 Staff Years
TOTAL: 74 Staff Years
*Represents Only Direct Audit Time
**Includes Vocational and Adult Education, Educational Research and Improvement, Vocational Rehabilitation, Special Education, and Bilingual Education

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The allocation of our audit resources in these areas continues to be effective in recovery of costs recommended for disallowance and questioned. Efforts in these areas also continue to provide ED management with recommendations for correcting underlying conditions contributing to the problems noted, thereby preventing unnecessary future costs as well.

D. HIGHLIGHTS OF SIGNIFICANT AUDITS

The following examples highlight some of the more significant findings contained in audit reports issued this period by OIG. The examples, grouped by major program areas within the Department, discuss a wide range of areas needing improvement in the administration of ED programs and activities by State and local governments, educational institutions, profit and nonprofit organizations, and Departmental headquarters and regional offices. Additional highlights of our audit efforts can be found in Chapter III, Section E, "Potential Cost Savings."

1. Elementary, Secondary, and Vocational Education

Over $4.2 billion is administered by the Department for (i) elementary and secondary education programs for educationally disadvantaged children, and (ii) vocational training programs for secondary and postsecondary students.

The Office of Elementary and Secondary Education administers about $3.5 billion in grants for disadvantaged children, as authorized under Chapter 1 of the Education Consolidation and Improvement Act (formerly, Title I of the Elementary and Secondary Education Act). The largest of these programs assists local education agencies in planning and operating programs for educationally disadvantaged children in areas having a high concentration of low-income families.

The Office of Vocational and Adult Education administers about $738 million in grants to prepare students at the secondary and postsecondary levels for employment. This program is intended to provide individuals with vocational training that is both suited to their needs and abilities and realistic in light of available job opportunities.

We issued 42 audit reports on programs in elementary, secondary, and vocational education during this reporting period. Major findings and recommendations from these reports are summarized in the paragraphs that follow.

a. $3.6 Million in Title I Funds Expended for Nonsupplemental and Unallowable Activities

Our audit of one local education agency's Title I program covering a period of three years disclosed that contrary to Federal regulations, $2,191,000 was used to supplant rather than supplement services provided by the agency for educationally disadvantaged children, and $1,372,000 was used to compensate educational assistants for time spent on activities not related to Title I instruction.

Specifically, our audit disclosed that Title I funds were used to pay for guidance counselor services that replaced, or supplanted, services that, in the absence of Title I funds, would have been provided by the local education agency. We recommended procedural improvements and the refund of $2,191,000 to the Federal government.

Title I was also improperly charged with salaries for educational assistants who did not devote all of their time to duties related to the Title I instructional program. Our review for the 1980, 1981, and 1982 grant years showed percentages of time spent on duties unrelated to Title I equal to 16.6%, 13.6%, and 13.2%, respectively. We recommended a return of $1,372,000 to the Federal government and an increase in monitoring of future activities performed by educational assistants to assure the proper charging of time to Title I.

b. $5.8 Million in Vocational Education Funds Inadequately Accounted For and $55,000 Improperly Charged

Our audit of vocational education funds in one State agency showed that (i) $1,611,000 was not adequately accounted for, (ii) expenditures of non-Federal funds totaling $4,208,000 necessary to comply with maintenance of effort and matching requirements were not adequately documented, and (iii) indirect costs totaling $55,000 were improperly charged.

The State agency's newly implemented automated accounting system failed to produce adequate records or detailed reports necessary to support costs of $1,611,000. We recommended that the State agency provide documentation to account for the $1,611,000 or refund the portion that cannot be supported.

We also recommended that adequate documentation to support expenditures of $4,208,000 in non-Federal funds be provided to demonstrate compliance with the maintenance of effort and matching provisions of the legislation enacting the program,

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which are to assure that Federal funds are used in addition to State and local funds. Because of the lack of adequate documentation provided by the agency's accounting system, we were unable to determine whether these requirements were met.

In addition to the above, we also recommended recovery of indirect costs of $55,000 improperly charged to the Federal program. The State agency has agreed to return these funds and has revised its procedures for charging indirect costs to the Federal program.

2. Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services administers several programs that provide grants and contracts to a diverse group of entities, including State and local agencies, private profit and nonprofit organizations, and institutions of higher education, to provide services to educate handicapped children and to help handicapped persons become gainfully employed.

Programs authorized by the Education of the Handicapped Act, currently funded at approximately $1 billion, assist States in expanding and improving programs and projects designed to provide a free appropriate public education to all handicapped children.

Programs authorized by the Rehabilitation Act of 1973, also funded at about $1 billion, provide rehabilitation services to help the handicapped -- especially the severely handicapped -- become gainfully employed.

During the six-month period, 16 audit reports were issued in these program areas. Major findings and recommendations from these reports are summarized in the paragraphs that follow.

a. $1.4 Million in Handicapped Education Funds Identified as Supplanted Funds and Improper Direct Charges

Our audit of the special education program in one school district disclosed that improvements were needed by both the district and State in the administration of funds that flow through a State agency for distribution to the local education agency under Part B of the Education of the Handicapped Act.

Program requirements stipulate that recipients must, at a minimum, maintain the same level of effort with State and local funds as was provided during the previous fiscal year for the education of handicapped children. Part B funds are to be used to increase the level of expenditures for special education and

related services. We found that during fiscal year 1983, the required minimum level of funding was not maintained. As a result, the district expended $930,000 in Part B funds that supplanted rather than supplemented the required State and local level of funding.

Since the period of availability of supplanted funds had not yet lapsed, we recommended that the State adjust its accounting records relating to the local school district by the amount supplanted, and ensure that funds are either properly obligated within the period of availability or refunded to the Federal government. The State concurred with this finding and our recommendations.

Our audit also disclosed that the district charged Part B funds during fiscal years 1980 and 1981 for several administrative positions that were not specifically directed to special education and related services. We recommended that $445,000 be returned to the Federal government.

b. $600,000 in Handicapped Education Funds Recommended for Disallowance Based on Overcount of Eligible Children

Part B of the Education of the Handicapped Act mandates that funds be distributed to assist handicapped children based upon an annual count of those who are identified under no more than one handicapping condition and receiving services on December 1 of each particular year. The count is the responsibility of the State, and a duly authorized official of the State must certify that the data reported to the Department represents an accurate and unduplicated count.

Our initial review of the December 1, 1980, count in one school district disclosed an overcount of eligible children due to a failure to eliminate some duplicate counts. The district was subsequently directed by the State agency to reconstruct records for the handicapped child count for December 1, 1978; 1979; and 1980. The reconstruction by the district demonstrated an overcount of 2,400 children and a corresponding overallocation of $535,000 in Part B funds.

Our audit of the records of handicapped children still included in the count after the district's reconstruction identified an additional overcount of 300 children, resulting in an additional $65,000 overaward of Part B funds.

We recommended that the total amount, $600,000, be returned to the Federal government.

c. $1.6 Million in Salaries Unsupported and $375,000 in Expenditures for Vocational Rehabilitation Overstated

Our audit of one State agency's administration of vocational rehabilitation funds disclosed inadequate support for $1.6 million in salaries. Our audit also identified $361,000 in expenditures that were incurred during one fiscal year and incorrectly charged to another and $14,000 in indirect costs that were overstated.

The State agency did not have a time distribution system adequate to assure that salaries chargeable to more than one grant were properly supported. Therefore, we could not determine whether $1.6 million in vocational rehabilitation costs were allocated to the proper grant and were reasonable. We recommended reconstruction of records to support costs allocated for fiscal year 1982 and establishment of a time distribution system for grant activities in subsequent fiscal years.

Expenditures totaling $361,000 were improperly charged to fiscal year 1982 funds due to the State agency's erroneous interpretation that an obligation is incurred when a contractor submits an invoice for payment, rather than when the State agency makes a binding, written commitment, as specified in applicable Federal regulations.

Indirect costs were overstated because the State agency incorrectly applied the indirect cost rate to a base containing direct salaries and all fringe benefits. The 1982 agreement between the State agency and the Federal government provided for a base of direct salaries and fringe benefits limited only to vacation, holiday, and sick pay.

d. Intended Recipients Not Benefiting From Vocational Rehabilitation Funds

Our audit of the business enterprises program in one State agency disclosed that targeted recipients of vending stand program funds were not being served and several management improvements were needed, particularly in the evaluation of the self-employment program.

In State fiscal years ending June 30, 1982 and 1983, $734,000 of funds available under the Randolph-Sheppard Act were expended by the State agency to create and supervise the operation of vending stands. Funding under the Randolph-Sheppard Act is supposed to provide visually impaired persons with remunerative employment, enlarge the economic opportunities of the visually impaired, and encourage the visually impaired to

become self-supporting. However, our review showed that sighted persons operated vending stands for extended periods of time and visually impaired persons were not given priority in employment as relief workers. Four stands were operated by sighted persons for a year or more, 52 sighted persons worked in 25 stands in various positions, and 86 percent of all relief workers were sighted.

Our report recommended the development of stronger guidelines for hiring the visually impaired in order to assure that funds under the Randolph-Sheppard Act are expended to benefit visually impaired persons, who are the intended recipients, to the fullest extent possible.

Our audit also identified a need for improvements in the management of the self-employment small business enterprise program. This program was created to assist severely handicapped individuals who are homebound and/or have limited mobility to become gainfully employed. We found that 66 percent of the program participants earned less than $1,000 annually. The management improvements we recommended included an evaluation of the performance of individuals earning under $1,000 annually to determine whether they might be better served through alternative placement.

Our audit further showed that administrative costs per dollar of client's earnings increased over 30 percent from 1982 to 1983. Administrative costs to run the program are borne by Federal and State funds. We recommended an evaluation of the management practices of the program in order to determine what actions might be taken to reduce the administrative costs per client.

Our audit also recommended disallowance of $29,000 in vocational rehabilitation funds because (i) set-aside funds were improperly used to match $20,000 in Federal funds, and (ii) $9,000 was improperly used for vending-stand repair and maintenance couts.

3. Postsecondary Education

The Office of Postsecondary Education administers programs of financial assistance to students and to institutions, providing aid in the form of grants, direct loans, interest on loans, loan guarantees, and earnings through work-study programs. In fiscal year 1984, programs of postsecondary education accounted for $6.7 billion of the Department's appropriation, making this the largest program area in ED. Currently, some 8,000 postsecondary institutions participate in these programs.

During the six-month period covered by this report, the OIG issued or processed 1,299 audit reports addressing postsecondary education programs. These reports, the preponderance of which concerned programs of student financial assistance, recommended the disallowance of costs totaling $7.6 million and questioned an additional $6.4 million.

Major findings and recommendations from recent audit reports are summarized in the paragraphs that follow.

a. Audits Disclose That Some Universities Are Not Meeting Their Obligations Under the College Housing and Academic Facilities Loan Programs

During the last six months we issued audit reports on three institutions that were in default on their College Housing Loans, bringing to 10 the number of such audits we have conducted. Eight of these 10 institutions also had Academic Facilities Loans and six of these were in default.

We found that institutions were delinquent in paying their loans for two main reasons:

- Institutions simply did not have the funds to meet payments. For example, one institution's operating cash deficit was estimated to be between $750,000 and $1,000,000.

- Other institutions were delinquent because management decided to make payments on other long-term debt. For example, although one institution was delinquent on about $481,000 of its College Housing Loan, it paid at least $263,000 on debts to private lending institutions. The interest rate paid on the non-Federal debt was significantly higher than the three percent College Housing Loan.

In addition to the above, understatements of net revenues resulted from:

- Pledged revenues not being credited to the loan programs.

- Pledged facilities being used for other than intended purposes.

- Non-project-related expenses being charged to the program.

- Inadequate cost-allocation procedures.

We recommended that these institutions (1) develop accounting and cost-allocation procedures to properly account for revenues and expenses of the facilities, (2) deposit all revenues into the required accounts, (3) make debt-service payments with all net revenues, and (4) give College Housing Loans equal treatment with other long-term debt.

Based on audit reports already issued and a review of selected aspects of ED's management of these programs, we are developing a report which will make recommendations to improve the overall management of the College Housing Loan Program.

b. Guarantee Agency Has Drawn $4.7 Million of Advances in Excess of Its Needs

Our review of a guarantee agency showed that Federal advances of $500,000 were not needed to meet current demands. Subsequent to our field work, the agency drew an additional advance of $4.2 million. The majority of these funds were advanced under Section 422(c) of the Higher Education Act, which provides that the Department can recover only those advances which exceed 20 percent of the agency's outstanding loan volume. We have recommended that the agency voluntarily return the $4.7 million even though it is in compliance with the Act -- namely, that portion of the legislation that provides that advances cannot exceed this 20% ceiling.

In a report issued in July 1982, we recommended that the Assistant Secretary for Postsecondary Education initiate action, including proposing legislation, that would allow the Department to recover all advances held by guarantee agencies.

c. Deficiencies in Administration of the Student Financial Assistance Programs Lead to Costs Recommended for Disallowance of $3.4 Million and Questioned Costs of $1.6 Million

An audit of a vocational school found that the school had failed to properly administer student financial assistance (SFA) programs for the years 1980-81, 1981-82, and 1982-83. In our statistical sample we found extensive violations of Federal regulations, such as:

- The school did not request transcripts relating to the previous financial aid status of students transferring from other institutions.

- Files lacked evidence that noncitizens who could be eligible were in fact eligible for SFA.

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- Students were awarded Federal assistance although their ability to benefit from the training was not documented.

- Students received SFA although eligibility was questionable due to conflicting information in the files.

- Awards were incorrectly calculated.

- Students were not maintaining satisfactory progress.

- Refunds due to the Guaranteed Student Loan (GSL) lenders or Federal grant accounts were not made.

- Students received GSLs after dropping out of school.

- Awards to students were less than the Pell Grant amounts claimed.

We recommended that the school refund $3.4 million. Regarding an additional estimated $1.6 million of unsupported disbursements, we recommended that the school review the records of all recipients during the audit period, attempt to secure the missing documentation, and reconcile inconsistent data or refund the costs which cannot be fully supported.

d. Deficiencies in Administration of the Pell Grant Program Lead to Questioned Costs of $558,000

Our audit of a college found extensive violations of Pell Grant Program regulations. For example, some students received aid without maintaining satisfactory academic progress; student financial aid transcripts were not on file for some students, even though the available information indicated that the students had previously attended other postsecondary institutions; and awards were made to some students who had previously completed their baccalaureate program.

We recommended that the school review all of the Pell Grant awards for the award year 1982-83 and provide the necessary support or refund the $558,000 projected by our statistical sample.

e. Recommendations for Suspension of College's National Direct Student Loan Program Eligibility and for Potential Recovery of $660,000 Due to Improper Administration of Student Financial Assistance Programs

Our audit of the National Direct Student Loan (NDSL), Supplemental Educational Opportunity Grant (SEOG), Pell Grant, College Work Study (CWS), and Guaranteed Student Loan (GSL) programs at a four-year institution noted serious problems in the administration of these programs.

The problems in the NDSL Program alone were so serious that we recommended the suspension of the college's eligibility for continued participation until appropriate corrective actions are taken.

We also recommended for disallowance costs of $472,000 and questioned costs of $188,000 because of invalid or missing documentation and miscalculations of award amounts. Specifically:

- o $449,000 in Pell, NDSL, GSL, and SEOG funds was improperly disbursed to students whose files did not contain the required documentation of students' need or of students' fulfillment of the college's entrance requirements.

- o $30,000 in Federal interest and special allowance costs associated with the GSLs was incurred.

- o $51,000 in NDSL funds was improperly disbursed because of missing or invalid promissory notes.

- o $44,000 in NDSL, SEOG, and CWS disbursements was overclaimed. The institution could not support these disbursements.

- o $78,000 in Pell Grants was improperly disbursed because of miscalculations of the awards.

- o $8,000 in administrative costs was improperly charged.

f. Effectiveness of Regional Student Financial Assistance Loan Collection Activities Can Be Improved

The Office of Student Financial Assistance (OSFA) is responsible for collecting defaulted Federally Insured Student Loan (FISL) and National Direct Student Loan (NDSL) accounts that are submitted by lenders and institutions and accepted by OSFA. In 1981 the Education Department centralized collections into three OSFA regional offices: Atlanta, Chicago, and San Francisco. This task was formerly handled in each of the 10 regional offices.

Our audit evaluated the effectiveness of student loan collection activities in the Atlanta, Chicago, and San Francisco regions. Our review found that debt collection has increased through initiatives such as identification of federally employed defaulters, introduction of computer-generated default letters, and Internal Revenue Service address matches. However, we found that the three regional offices can further increase collections if improvements are made in their operations and repayment schedules are negotiated in accordance with the guidelines established in the Federal regulations.

We found that the regions were not providing aggressive and prompt collection actions and did not effectively follow up on all claims. Moreover, the regions discontinued work on more than 100,000 loans. As a result, (1) the Department might not be collecting as many dollars as possible, (2) loans were transferred to private collection contractors without being sufficiently worked, and (3) the statute of limitations had expired or was expiring on potentially collectible accounts.

We concluded that the collection activities could be improved if OSFA (1) structured the central collection organization to have greater visibility and authority, (2) developed and implemented adequate collection policies and procedures, (3) provided an automated collection management system for the regions, (4) allowed the regions adequate time to work the accounts before transfer to contractors, and (5) identified the accounts when actual transfers to the contractors were planned.

The regions also were not collecting monies in one lump sum whenever possible. If the debtor is unable to pay the debt in one lump sum, the size and frequency of installment payments should bear a reasonable relationship to the size of the debt and the debtor's ability to pay.

We recommended additional management improvements to increase debt collections. OSFA generally agreed with our recommendations and indicated that actions have been taken to strengthen the debt collection process.

g. Hotline Allegation Leads to Recommended Termination of Vocational School's Guaranteed Student Loan Program Eligibility and Recommended Recovery of $1.6 Million

As a result of a Hotline allegation, the Office of Postsecondary Education (OPE) and the OIG reviewed the Guaranteed Student Loan (GSL) Program at a vocational school. We found that the school did not provide 300 or more clock hours of

classroom instruction or its equivalent, as required by program eligibility criteria. The school submitted documents to ED indicating that its program was 304 clock hours, and was accordingly granted eligibility to participate. The Hotline allegation was that the school offered a 150-hour program and therefore did not qualify. Review by OPE and OIG verified that the school was offering the nonqualifying 150-hour program. For the period June 1982 to May 1983, more than 500 students who received GSLs signed only 150-hour contracts. Subsequently, the school used a two-part contract even though only Phase I, a 150-hour course, was offered. Another 500-600 students received GSLs under this two-part contract arrangement.

We recommended that OPE terminate the vocational school's eligibility to participate in the GSL Program. We also recommended that OPE hold the school liable for (1) all interest and special-allowance payments made by ED, and (2) all default claims on the 500-plus students who signed a 150-hour contract, as well as on the 500-600 students who did not receive the second phase of training. Based on the average default rate for these types of loans, and the interest and special allowance paid by the Department on these loans, we estimate that the school's liability to the Federal government is $1.6 million.

E. AUDIT RESOLUTION AND RECOVERY OF FUNDS

Departmental program managers are responsible for the resolution of audit-reported deficiencies. The following paragraphs detail their resolution activities during this reporting period.

1. Audit Reports Unresolved as of April 1, 1984

At the beginning of the reporting period (April 1, 1984) the Department had 705 unresolved audit reports. Of these, 457 were less than three months old, 246 were 3 to 6 months old, and 2 were over six months old. In these reports, costs recommended for disallowance or questioned totaled $43.3 million. In addition, there were 21 audit reports, involving costs recommended for disallowance or questioned of $36 million, previously issued and held pending the completion of additional audit work necessary before the resolution process could proceed.

2. Audit Reports Resolved During Period

A total of 1,079 audit reports were resolved during the six-month period from April 1, 1984 through September 30, 1984. Management officials sustained $7.2 million (63%) of the $11.5 million in costs recommended for disallowance in these reports

and $24.6 million (83%) of the $29.7 million questioned. An additional $4.0 million not identified or included in the audit reports was detected by program management during the resolution process. This brings the total demand for recovery to $35.8 million.

3. Recovery During Period

During this period, actual recovery of $3.9 million was effected as a result of audits resolved during this or previously reported periods.

4. Audit Reports Unresolved as of September 30, 1984

At the end of this reporting period (September 30, 1984) there were 689 unresolved audit reports held by operational components within the Department. These reports contain costs recommended for disallowance of $21.7 million and questioned costs of $68.8 million. Included in these totals are 11 audit reports, with costs of $4.4 million recommended for disallowance or questioned, over six months old. Final resolution is expected to be made by program management in the near future. In addition, four audit reports previously issued are being held by us pending the completion of additional audit work necessary before the resolution process can proceed. These reports contain costs recommended for disallowance or questioned totaling $19 million.

F. STATUS OF PRIOR AUDIT RECOMMENDATIONS

As of the end of this reporting period, all recommendations detailed in previous semi-annual reports have been resolved, with the following exceptions.

1. Special Education

Over $1 Million in Lapsed and Improperly Spent Handicapped Education Funds Recommended for Disallowance or Questioned (Page I-7 in Semi-Annual Report No. 8)

Over $1 million was obligated after the period of availability or expended for unallowable purposes. Included in this amount were unsupported costs of $432,000 resulting from the inadequate documentation for child count and payroll distribution.

Status: A partial letter of determination was issued, but findings involving the unsupported costs were not resolved. The program managers are working with the auditee and expect to resolve all outstanding issues by the end of December 1984.

2. Postsecondary Education

Deficiencies in Administration of ED Funds Result In Questioned Costs of $2.5 Million (Page I-13 in Semi-Annual Report No. 8)

Insufficient records relating to the Pell Grant and Campus-based programs resulted in questioned costs of $2.5 million.

Status: These findings, as reported in two separate audit reports, remain open awaiting receipt and verification of additional information to be supplied by the auditee. Closure is expected to be made by the middle of November 1984.

G. OTHER AUDIT MATTERS

1. Implementation of OMB Circular A-102, Attachment P

The Office of Inspector General continues to be actively involved in implementing OMB Circular A-102, Attachment P. At this time, the Department of Education is designated as the cognizant agency for four States, 112 State agencies, and 17 local agencies. During this period we assisted State education agencies in training their staffs to assure progress towards 100% implementation of the single audit concept.

A total of 15 single audit reports were issued during this reporting period on entities for which the Department is cognizant. These 15 audit reports include costs recommended for disallowance totaling $.4 million and questioned of $.4 million. The OIG also received and processed 23 single audit reports for which other Federal agencies were cognizant and which entail coverage of education program funds. These 23 audit reports include costs recommended for disallowance totaling $.9 million and questioned of $4.0 million.

These 38 reports are part of the totals reported on page 1 of this report and represent slightly less than 3% of the total number of audit reports issued or processed (1,448), but over 8 percent of the total costs recommended for disallowance ($15.9 million), and over 14 percent of the total costs questioned ($30.9 million).

2. Distribution of New Student Financial Assistance Audit Guide

In May 1984, copies of the OIG's new audit guide for the student financial assistance (SFA) programs were mailed to approximately 8,000 participating postsecondary educational institutions. The new SFA audit guide updated and consolidated the OIG's 1980 Campus-based programs audit guide; audit steps in the 1981 OSFA Bulletin; and the 1981 Pell Grant Program audit guide. The new guide also covers the Guaranteed Student

Loan Program. Postsecondary institutions are required to conduct their audits in accordance with the OIG's new SFA audit guide for the audit period ending June 1984.

3. **Nationwide Training for Non-Federal Auditors**

In August 1984, we offered our assistance to all State societies of certified public accountants for training sessions they may provide on the implementation of the single audit concept and on the student financial assistance (SFA) audit guide.

The impact of this offer of training touches the 16,000 local education agencies subject to the single audit requirement as well as the 8,000 educational institutions served by Education Department programs.

CHAPTER II

INVESTIGATION ACTIVITIES

A. INTRODUCTION

The OIG is responsible for investigating allegations of fraud, waste, and abuse relating to the Department's programs and operations. During this period, OIG investigation activities resulted in the largest number of indictments and convictions, and one of the highest total dollar amounts in restitutions, of any previous reporting period in our four years of operations. These activities involved owners and employees of postsecondary institutions, a corporation, and individual student recipients.

B. SUMMARY STATISTICS

Following are summary statistics showing results of investigation activities this period:

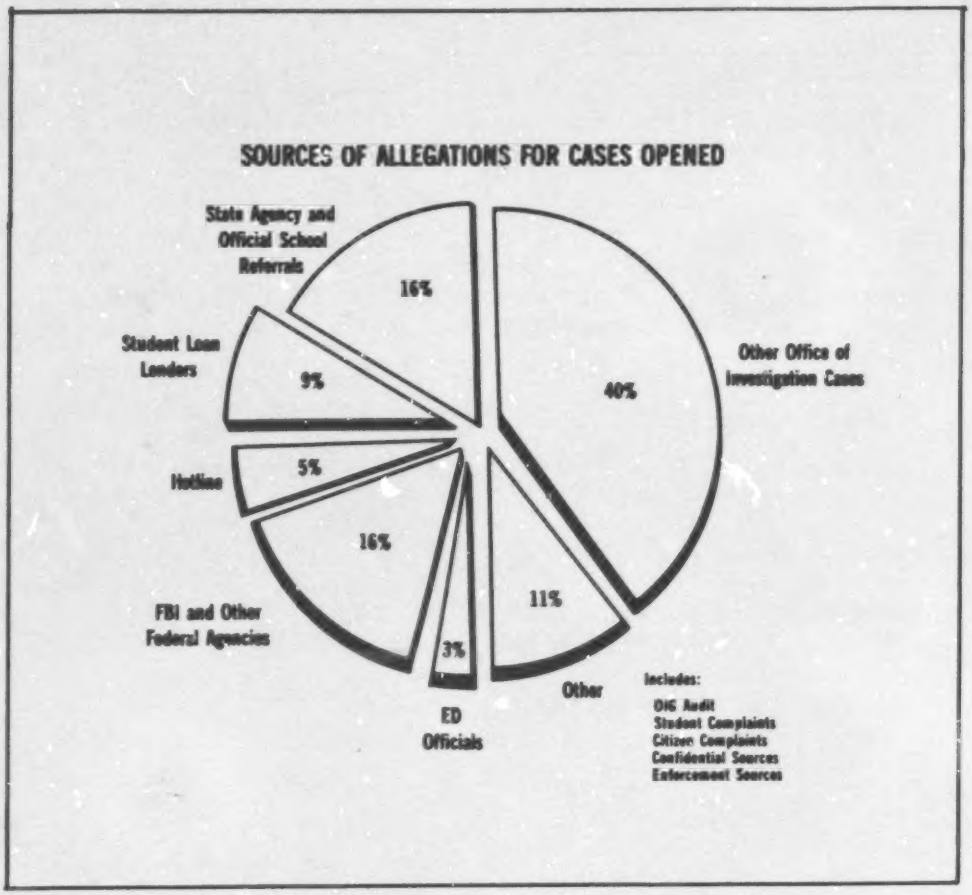
Cases Opened	292
Cases Closed	169
Cases Referred for Prosecution	140
Cases Accepted	90
Cases Declined	50
*Indictments/Informations	155
Civil Filings	1
Convictions/Pleas	71
Fines	$102,522
Restitutions	$538,214
Recoveries	$291,396
Savings	$ 62,150

*Includes 9 pretrial diversions.

Following are summary data on the number of cases opened, closed and active for the period April 1, 1984 through September 30, 1984.

Cases active April 1, 1984	660
Cases opened this period	292
Cases closed this period	169
Cases active September 30, 1984	783

OIG receives allegations from various sources. The following chart shows a breakdown by source of allegation of OIG cases initiated during the period.



C. HIGHLIGHTS OF SIGNIFICANT INVESTIGATIONS

This section provides highlights of our investigative activity for this period.

1. Alien Project

Since 1981 we have worked closely with the Criminal Division of the U.S. Department of Justice, the Immigration and Naturalization Service, and local law enforcement agencies in identifying, investigating, and prosecuting aliens who have illegally received student financial assistance by falsely claiming U.S. citizenship or an eligible alien status. Our efforts continued during this period and resulted in several significant accomplishments:

- A Federal grand jury indicted 49 individuals in May 1984 on various counts of (1) false statements to obtain student aid, (2) mail fraud, and (3) false claims to United States citizenship. These indictments were the culmination of a two-year joint investigation by the OIG and the Immigration and Naturalization Service. Those indicted were charged with illegally receiving varying amounts of Pell Grant, Supplemental Educational Opportunity Grant, College Work-Study, National Direct Student Loan, and Guaranteed Student Loan monies. Thus far, 21 of those indicted have pled guilty and been sentenced.

- In July 1984, a county grand jury returned indictments charging six foreign nationals with theft and grand theft of between $2,500 and $3,500 each in Federal and State student financial assistance (SFA). Each person charged had obtained the SFA funds by misrepresenting his or her citizenship status on various financial aid applications. In all, the group received over $17,000.

- Also in July, a Federal grand jury charged an individual with multiple felony counts for illegally receiving almost $31,000 in student assistance. The joint ED-OIG, Health and Human Services-OIG, and Immigration and Naturalization Service investigation developed evidence that between 1978 and 1983, this person applied for and received benefits from the Guaranteed Student Loan, Pell Grant, Health Profession Student Loan, and Health Education Assistance Loan programs by falsely claiming U.S. citizenship.

- In June 1984, a Federal grand jury returned a group of indictments charging 24 ineligible aliens with various counts of fraud and false statements on applications for Federal student financial assistance. The indictments alleged that the aliens had falsely claimed either U.S. citizenship or an eligible alien status on applications for Pell Grants and Guaranteed Student Loans, netting them about $130,000 in Federal aid to which they were not entitled. Thus far 17 have entered guilty pleas to the charges.

A summary of the results of the project since its inception, including those achieved this period, is presented in the table on the following page.

Indictments/Informations

This period	97
Project total	333

Convictions

This period	52
Project total	201

Total Aid Received by Indicted Aliens $1,405,079

Average Aid per Subject $4,219

2. **Extended Family Fraud Ring**

In September 1984, 21 members of an extended family were indicted by a Federal grand jury which charged the family members with multiple counts of conspiracy, student financial assistance (SFA) fraud, mail fraud, and fraudulent use of Social Security numbers in connection with a scheme to obtain dozens of fraudulent Guaranteed Student Loans (GSL) and Pell Grants during the 1983 and 1984 academic years. A joint OIG/U.S. Postal Inspection Service investigation determined that 23 members of the extended family had conspired to apply for and receive varying amounts of Pell Grants and GSLs by creating multiple phony identities. The family would use the phony identities to gain admittance to a college, establish eligibility for Federal SFA, and then receive the loans and/or grants and use the money for non-educational expenses. The family was able to bilk the Federal government out of $44,231 using this scam. Due to the evidence uncovered by the investigation, an additional $42,000 in bogus GSLs and Pell Grants was stopped prior to disbursement.

3. **Other Cases Successfully Prosecuted or Accepted for Prosecution**

- In August 1984, two former co-owners of a proprietary school made restitution of nearly $111,000 to the Department as part of a pretrial diversion agreement reached with the United States Attorney's office. The pretrial diversion came after an OIG investigation established that the pair had embezzled about $60,000 in Title IV student financial assistance funds from the school's Federal accounts in early 1980 and then used the money to satisfy a personal debt. In addition to the embezzled funds, the restitution includes an assessment for interest.

- The former executive director of an independent university-affiliated foundation was indicted in June 1984 by a Federal grand jury on two counts of making false statements to the Department. The false statements were allegedly made on two reports, filed with the Department, which claimed that certain Federal education funds were expended for approved projects when a significant portion of the funds was in fact used to support other unrelated foundation projects.

- During June 1984, a former financial aid director of a college was placed on five years' probation, given a five-year suspended sentence, and ordered to make restitution of about $46,500. The sentencing resulted from an earlier guilty plea to a two-felony-count information which charged the individual with making false statements to several lenders in order to receive Health Education Assistance Loans (HEALs) and Federally Insured Student Loans (FISLs). A joint ED-OIG/Health and Human Services-OIG investigation determined that between July 1981 and September 1982, the individual received a combination of HEALs and FISLs totaling about $46,500 for academic years when the individual was either not enrolled or enrolled on a part-time basis. This person, in his official capacity as the financial aid director, falsely certified himself as an enrolled full-time student.

- As the result of a lengthy joint FBI/OIG investigation, the president of a business college, on behalf of the corporation, waived indictment as part of a plea agreement and entered a plea of guilty in June 1984 to an eight-count felony information charging the college with eight false-statement violations. The false statements were made to the Department by school officials and related to the misapplication of Federal student financial aid for enrollees. The college was fined $75,000 and, pursuant to the plea agreement, made a prepayment of $200,000 which was to be applied against the total liability the school owed to the Department. OIG auditors are working with the State guarantee agency and the college's attorney to establish the amount of liability.

  The college's former financial aid officer was sentenced in April 1984 to two years' probation, after pleading guilty to charges stemming from the same investigation and contained in a separate two-count information.

- In June 1984, an owner of a now defunct business school was sentenced, under a plea-bargaining agreement, to five years' suspended sentence and five years' probation, and

in addition was fined $2,000 and ordered to make restitution of $30,000 to the government. The proprietary-owner was indicted by a Federal grand jury in May 1983 for false statements and embezzlement of Title IV student financial assistance funds. The indictment alleged, among other things, that the owner had falsified an expenditure report to the Department, made unauthorized withdrawals from the school's restricted Federal accounts, and charged the Federal aid accounts for tuition on behalf of students no longer enrolled at the school.

- In August 1984, an individual was charged by a Federal grand jury with three counts each of bank fraud and student financial assistance fraud. The indictment stems from an OIG investigation which established that between 1979 and 1983, the person had received about $18,000 in Guaranteed Student Loans, of which about $13,000 was attributable to the use of one alias and three bogus Social Security numbers.

- In September 1984, an employee of a school district and her estranged spouse were indicted by a Federal grand jury for embezzling over $39,000 in Federal impact aid funds. The indictment alleges that between May 1983 and June 1984, the school district employee prepared and negotiated numerous school district checks that she made payable to herself, her spouse, or her creditors.

CHAPTER III

MANAGEMENT IMPROVEMENT ACTIVITIES

A. INTRODUCTION

OIG efforts to eliminate fraud, waste, abuse, and mismanagement are not confined to audits and investigations; they also include management improvement activities, which provide essential support and reinforcement.

This chapter highlights OIG management improvement activities of the reporting period.

B. MANAGEMENT IMPLICATION REPORTS

OIG management implication reports alert ED managers to weaknesses in operations. These weaknesses are usually discovered in the course of criminal investigations. Two such reports were issued this period.

- Guaranteed Student Loans totaling about $700,000 were improperly made by State guarantee agencies, which administer the program, to non-U.S. citizens attending schools outside the United States. (The law restricts these loans to U.S. citizens.) In accordance with our recommendations, the Office of Postsecondary Education is seeking to identify all such loans and obtain refunds for improperly paid special allowances, interest and reimbursement claims.

- The Office of Postsecondary Education (OPE) lacked effective coordination in its eligibility and certification processes. Through error, an OPE request to stop the release of funds to one institution was never activated; as a result, the institution received over $900,000 although it was not certified to participate in student financial assistance (SFA) programs. In response to our recommendations, OPE withheld all SFA funds from the institution and was considering amounts to be refunded. OPE officials were also analyzing their internal procedures for corrective action.

C. INSPECTOR GENERAL INTEGRITY GUIDES

OIG this period issued two Inspector General Integrity Guides, bringing to five the number of Integrity Guides issued by the OIG since its inception. "Official Travel" (Exhibit 1), which focuses attention on fraud and abuse in official travel, alerts ED employees to the severe consequences of such activities and strongly urges them to report suspected travel abuses to the Office of Inspector General. "Grants and Contracts" (Exhibit 2) deals with the government grants and contracts processes in much the same manner. The purpose of Inspector General

Integrity Guides is to heighten employees' awareness of their responsibility to prevent and eliminate fraud, waste, and mismanagement in Department of Education programs and operations.

D. FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The Federal Managers' Financial Integrity Act (FMFIA) imposed an important responsibility on agency officials to strengthen internal controls. Section 2 of the Act requires agencies to evaluate their internal control systems and to report to the President and Congress annually on their systems' status. Section 4 of the Act requires a separate report on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. Implementation of the Act has presented an opportunity for a cooperative effort among ED components, OIG, the General Accounting Office, and the Office of Management and Budget to promote economy, efficiency, and productivity in the administration of the Department's programs and operations.

During this reporting period, we provided technical assistance to ED in implementing the provisions of Section 2 of the Act. We also began a review of the corrective actions taken on deficiencies disclosed by the 1983 internal control reports and ED's compliance with the FMFIA, Section 2, for 1984.

We also have started a review of the process used by ED to assure that the accounting systems are and will continue to be in compliance with the principles, standards, and related requirements prescribed by the Comptroller General as required by Section 4 of the Act.

We will continue to monitor the Department's efforts and provide technical assistance as appropriate on an ongoing basis.

E. POTENTIAL COST SAVINGS

In our audit reports, in addition to recommending costs for disallowance or questioning costs that are not adequately supported, the OIG makes recommendations which, if implemented, will permit significant improvements in the economy, efficiency and effectiveness of the Department's programs. These recommendations often reflect estimates of costs that will be avoided if needed changes identified during our audit activities are implemented. During this reporting period, potential cost savings of approximately $6 million were reported. Of this total, $4 million represented annual or recurring savings and $2 million reflected one-time savings that would not normally recur. Following are examples of potential cost savings identified this period:

- $1.2 million could be saved annually at a major local education agency if recommended improvements in Chapter 1 (formerly ESEA Title I) monitoring were implemented. The monitoring process would ensure that only allowable activities will be funded.

- $2.2 million could be saved annually at one college alone if safeguards against improper use of Guaranteed Student Loan (GSL) funds were in place. Examples of such misuse include conflicting eligibility information, awards over computed needs, failure to consider unsatisfactory academic achievements, and failure to collect GSL lender accounts and awards after students dropped out of school.

- We questioned a State agency's use of GSL funds for grants to students for non-program purposes. In implementing corrective action, the State agency reclassified $1.6 million of insurance premiums to the GSL reserve fund and submitted corrected quarterly reports to ED offices as requested. This correction provides a one-time potential savings of $1.6 million.

F. RECOMMENDATIONS MADE TO RESTRICT THE USE OF RESERVE FUNDS

The Higher Education Act of 1965, as amended, provides advance funds to help establish or strengthen guarantee agencies' Guaranteed Student Loan (GSL) reserve funds (Section 422(a)) and for the purpose of making payments under the agencies' insurance obligations (Section 422(c)). We have issued reports that indicate that Federal advance funds are not needed. In addition to these advance funds, the GSL reserve funds include insurance premiums charged to borrowers, investment earnings, collections on defaulted loans, and any State appropriations.

Current regulations have been interpreted to provide that each agency's GSL reserve fund may contain both restricted and unrestricted funds. Unrestricted funds from the investment earnings on insurance premiums and on Section 422(a) advances may be used for non-GSL purposes once the Federal advance has been repaid.

We reviewed reserve fund data for seven of the largest State guarantee agencies. These seven agencies had total GSL reserves of $338 million. Of this amount, $55 million (16.3%) represented unrestricted earnings which, under current regulations, could be used for non-GSL purposes if advances were repaid. We did not attempt to compute the exact amount of restricted earnings nationwide. However, assuming that the 16.3% was representative of all GSL reserves as of September 1982, the amount of unrestricted earnings, nationwide, that could be subject to use for purposes outside the scope of the GSL Program is approximately $100 million.

We recommended amendment of the regulations or, alternatively, changes to legislation, to restrict the use of reserve funds to GSL purposes only. The restriction should apply regardless of whether a guarantee agency holds any Federal advances.

G. REVIEW OF GRANTBACK PROPOSAL

Federal law authorizes the Secretary of Education to grant back to State or local education agencies up to 75 percent of funds repaid the Department as a result of audit disallowances. The General Education Provisions Act (20 U.S.C. 1221 et seq.) specifies certain requirements that the recipient must meet to be entitled to receive a grantback. Among these are: (1) that the recipient certify that it has corrected the practice that led to the disallowance; (2) that the recipient submit a plan for the use of grantback funds; and (3) that grantback funds be expended within three fiscal years following the fiscal year in which the audit determination was made. The Secretary must publish a notice in the Federal Register of his intent to award a grantback and provide 30 days for public comment.

In reviewing a draft of one such Federal Register notice, two major problems were discovered. First, the grantback proposal outlined in the notice called for expenditure of funds beyond the legal three-year time limit. Had this proposal gone forward, $70,705 would have been expended in violation of Federal law. Secondly, our review noted that the Department had improperly computed the amount of the grantback by including interest payments on the debt. We notified the Department of our concerns in this matter and ED officials agreed to recompute the amount of the proposed grantback.

Our involvement in this case prevented the improper disbursement of $77,436.

CHAPTER IV

OTHER MATTERS

A. HOTLINE ACTIVITIES

During this reporting period, we received a total of 71 Hotline complaints alleging fraud, waste, or abuse of ED funds, including nine referred by the General Accounting Office. A total of 14 of the 77 complaints closed during the period -- about 18 percent -- were substantiated and resulted in corrective action by the Department.

Since establishing the OIG Hotline in May 1980, we have received a total of 682 complaints, 130 of which were referred by GAO. A total of 589 of these have been closed, and 138 -- or about 23 percent of those closed -- have been substantiated. The results of audit and investigative activity initiated on the basis of one Hotline complaint are reported in Chapter I, Section D.

Following are examples of allegations received and either wholly or partially substantiated this period:

- An example of a complaint substantiated and closed during this period involved an allegation that a student had received Guaranteed Student Loan (GSL) funds by falsely certifying that he was not in default on any previous student loans. An OIG investigation substantiated the allegation and resulted in successful prosecution of the individual. Upon pleading guilty, the individual was sentenced to one year of probation and was required to make immediate repayment of nearly $8,500 in fraudulently received GSL funds. Additional repayment of the balance of $2,500 in outstanding loan funds was ordered to be made by the end of the probationary period.

- In another instance, an anonymous complaint alleged that a brother and sister had provided false family-income information in order to illegally qualify for Pell Grants. Review by the Office of Student Financial Assistance, which included re-evaluation of the subjects' financial aid eligibility, disclosed no criminal violations; however, the recalculations did disclose an overaward of approximately $300 to one of the students. The school involved has arranged for repayment of the funds.

- In another complaint, it was alleged that a postsecondary school was making false advertisements of employment and was enrolling students who had no apparent "ability to benefit," solely for the receipt of student aid funds. A program review conducted by the Office of Student Financial Assistance (OSFA) partially substantiated the complaint. The review disclosed no apparent misrepresentations by the school regarding employment opportunities, and additional contact with the complainant confirmed this. However, it was found that the content of the school's entrance examination was questionable and, considering the school's high withdrawal rate, was probably resulting in enrollment of persons who lacked the ability to benefit from the courses offered by the school. The review disclosed other procedural problems in the school's administration of student aid programs as well, and OSFA has required various corrective actions, including revision of the school's admissions test.

B. USE OF MICROCOMPUTERS

As a result of OIG's recent acquisition of microcomputers for both our headquarters and regional offices, OIG auditors and investigators are now able to assimilate, analyze and delineate complex information with markedly greater flexibility and with the expenditure of significantly fewer staff hours. The computers have enabled us to develop case studies during ongoing audits and investigations, and to graphically present data analyses to law enforcement officials.

C. OIG BUDGETARY MATTERS

Previous reports have drawn attention to the severe budgetary constraints experienced by OIG in recent reporting periods. This period, our request for a new authorization and appropriation level was approved, raising our total fiscal year 1984 appropriation to $14,961,000. This increase enabled us, for the first time since OIG's inception, to increase on-board staff to meet our previously authorized ceiling of 314 full-time-equivalent positions, thereby significantly enhancing our audit and investigative efforts.

D. REVIEW OF LEGISLATION AND REGULATIONS

The OIG this period continued to strengthen and expand its review of legislation and regulations. The Inspector General Act of 1978 (P.L. 95-452) requires IGs to review existing and proposed legislation and regulations in order to determine their impact on the economy and efficiency of Departmental programs and operations, as well as on the prevention and detection of fraud and abuse in these programs and operations.

1. Proposed Legislation and Regulations Reviewed This Period

During the past six-month period, the OIG reviewed 97 legislative proposals and 108 proposed regulations. Several of these contained provisions which left the Department potentially vulnerable to fraud or abuse. Through prepared comments and in direct discussions with ED officials, we were able to effect needed improvements.

Following are discussions of two areas where issues were raised by our office and subsequently addressed or taken under advisement by the Department.

a. Regulations Concerning the Guaranteed Student Loan Program

During our review of these proposed regulations, we made recommendations for improvement in several areas. Most significant among these were (1) a requirement for State guarantee agencies to monitor lenders, (2) inclusion of time limits on billing ED for interest and special allowances on loans where the loan check remains uncashed, and (3) requirements for appropriate separation of duties between State guarantee agencies and State secondary markets when both are supervised by a single governing body.

Our audits of the Guaranteed Student Loan Program have disclosed that considerable loss to the government was caused by lenders' continuing to bill ED for interest and special allowances although loan checks remained outstanding for long periods of time. These audits also indicated that a lack of lender monitoring was a factor contributing to financial loss.

b. OIG Investigations Lead to Recommended Changes in Regulations for Student Aid Programs

In a number of investigative cases conducted recently by our office, it was found that aliens had falsified immigration data on grant applications and were thereby receiving student aid grants to which they were not entitled. Consequently, we have recommended that the Department include in program regulations a requirement that aliens provide Immigration and Naturalization Service documentation of their immigration status as proof of their grant eligibility.

Our investigations found further that schools and State guarantee agencies lacked procedures for detecting and preventing program fraud and abuse and for referring cases of suspected fraud or abuse to local law enforcement officials. We have recommended that the Department revise student aid regulations to require State guarantee agencies and schools to establish procedures for fraud detection, prevention, and referral.

2. Seven Day Report

Our concern over proposed amendments to the Department's audit appeals procedure was the subject of a Seven Day Report to the Secretary of Education and the Congress on May 7, 1984. We believe that these amendments, if enacted, would seriously impede the Department's ability to enforce program accountability. In addition, we met with Departmental and Congressional staffs on the adverse impact we believe would result from enactment of these proposed amendments.

Although the proposed provisions were not enacted, it is likely that the subject matter to which they were addressed will receive Congressional consideration again. We will continue to monitor this issue with a view toward ensuring appropriate consideration of the effects of any new legislation on the economy and efficiency of the Department's program administration.

E. INSPECTOR GENERAL SPOTLIGHT

In June 1984, OIG issued the first Inspector General SPOTLIGHT, a pamphlet presenting highlights of our most recent semi-annual report. The SPOTLIGHT was distributed Department-wide; copies are also made available to other interested parties upon request. The SPOTLIGHT will be issued in conjunction with each semi-annual report.

F. PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

The OIG is participating in a number of activities of the President's Council on Integrity and Efficiency (PCIE), which was established to coordinate IG efforts in a government-wide attack on fraud, waste, and mismanagement. During the reporting period, these have included the following:

- The IG was co-chair and an OIG staff person was project director for the A-102 P Evaluation Project Group, which completed its evaluation of single audit implementation and presented its report to the PCIE this period.

- The IG has been an active member of the Performance Evaluation Committee and participated in the development of the interim quality standards accepted by the PCIE this period.

- The IG was named to chair a new Single Audit Committee, which was established to provide a coordinated voice for the IGs on single audit issues.

- The IG was named to chair a new Accounting and Auditing Standards Committee, which was created to assure that the IGs as a group have input into the formulation of auditing and accounting standards affecting them.

We also participated in a number of other PCIE projects and committee activities.

G. STATE AUDIT ORGANIZATION REVIEWS

The Office of Inspector General actively supports the concept of reviews of State governmental audit organizations, conducted in conjunction with the National Intergovernmental Audit Forum and directed by the National State Auditors Association. The reviews are voluntary: each State must request the review of its audit organization. These reviews provide an independent assessment of the State audit organization's adherence to professional audit standards, and represent a vital step toward assuring the audit community and the public that high-quality audit work is being performed by governmental auditors.

During this period, OIG senior staff members participated in the reviews of two State audit offices -- in one as a review team member, and in the other as leader of the review team.

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

SOURCE	LOCATION IN REPORT
INSPECTOR GENERAL ACT	
Section 4(a)(2) -- Review of Legislation and Regulations	Page 30
Section 5(a)(1) -- Significant Problems, Abuses, and Deficiencies	Pages 4, 20, 25, 26, 27, 28, and 29
Section 5(a)(2) -- Recommendations with Respect to Significant Problems, Abuses and Deficiencies	Pages 4, 20, 25, 26, 27, 28, and 29
Section 5(a)(3) -- Prior Significant Recommendations Not Yet Implemented	Page 16
Section 5(a)(4) -- Matters Referred to Prosecutive Authorities	Page 19
Section 5(a)(5) and 6(b)(2) -- Summary of Instances Where Information was Refused	(There were no instances where information was unreasonably refused.)
Section 5(a)(6) -- Listing of Audit Reports	Page 35

Federal Audits of Education Department Programs and Activities
April 1, 1984 Through September 30, 1984

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 78 audit reports were completed by Federal auditors. These reports are listed below:

ACN	ENTITY NAME	ISSUE DATE
01-30020	RHODE ISLAND VOC REHAB	06/84
01-30032	UNIV OF LOWELL	04/84
01-40112	URBAN SYSTEMS RESEARCH & ENGR	06/84
02-30001	NEW YORK CITY BOARD OF EDUCATION	09/84
02-30030	NEW JERSEY DEPT OF HUMAN SERVICES	07/84
02-30031	NEW JERSEY STATE DEPT OF EDUCATION	09/84
02-30036	ESSEX COUNTY COLLEGE	07/84
02-30038	GLASSBORO STATE COLLEGE	07/84
02-40075	LINCOLN FIRST BANK	09/84
02-40102	NEW JERSEY STATE DEPT OF EDUCATION	07/84
02-40107	SOLIDARIDAD HUMANA INC	07/84
02-40110	HISPANIC AMER CAREER EDUC RES INC	07/84
02-40111	RIVERSIDE ADULT LEARNING CENTER	07/84
03-30003	DISTRICT OF COLUMBIA BOARD OF EDUC	06/84
03-30008	SOJOURNER-DOUGLASS COLLEGE	08/84
03-40060	PENN STATE UNIV SFA/ROTC	09/84
03-40101	NATL ASSOC OF SFA ADMINS	05/84
03-40104	BIOSPHERICS INC	09/84
03-42025	PORTFOLIO ASSOCIATES	04/84
03-42026	NONPUBLIC EDUCATIONAL SERVICES	04/84
03-42027	CONSUMER DYNAMICS INC	08/84
03-42028	INTL BUSINESS SERVICES INC	06/84
03-42029	INTL BUSINESS SERVICES INC	06/84
03-42030	INTL BUSINESS SERVICES INC	06/84
03-42031	INTL BUSINESS SERVICES INC	06/84
03-42032	PENNSYLVANIA STATE UNIV	06/84
04-30056	MCKENZIE COLLEGE	04/84
04-30060	NORTH CAROLINA DIV OF HUMAN RESOURCES	07/84
04-30066	FLORIDA MEMORIAL COLLEGE	04/84
04-40002	MISSISSIPPI DEPT OF EDUCATION	07/84
04-40018	WACHOVIA SERVICES INC	09/84
04-40101	KENTUCKY JR COLLEGE OF BUSINESS	04/84
04-40105	EASTERN KENTUCKY UNIV-SFA/ROTC	08/84
04-40106	UNIV OF TENNESSEE-SFA/ROTC	08/84
04-40107	JACKSONVILLE STATE UNIV-SFA/ROTC	08/84
04-40109	FLORIDA A & M UNIV-SFA/ROTC	09/84

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Federal Audits of Education Department Programs and Activities (cont.)

ACN	ENTITY NAME	ISSUE DATE
05-30052	US DEPT OF ED-DIV OF ACCTS MGMT	04/84
05-30055	MULTI RESOURCE CENTERS INC	06/84
05-30059	MONMOUTH COLLEGE	04/84
05-30060	VITERBO COLLEGE	04/84
05-40001	OHIO DEPT OF EDUCATION	08/84
05-40101	OLIVE HARVEY COMM COLLEGE	05/84
05-40102	CHICAGO EDUC TV ASSN WTTW CH 71	08/84
05-40106	GRAND VALLEY STATE COLLEGE	06/84
05-40107	SCHARFENBERG BEAUTY COLLEGE	09/84
05-40108	NATIONAL OPINION RES CNTR	07/84
05-40109	BRASS FOUNDATION INC	09/84
05-40110	MARQUETTE UNIV	07/84
05-40111	BRASS FOUNDATION INC	07/84
05-40112	NATIONAL OPINION RES CNTR	09/84
06-40002	ARKANSAS DEPT OF EDUCATION	09/84
06-40061	NEW MEXICO ST UNIV-SFA/ROTC	09/84
06-40101	TEXAS APPLE SPRINGS IND SCH DIST	06/84
06-40106	UNIV OF TEXAS-AUSTIN	08/84
07-30032	ST LOUIS SPECIAL SCHOOL DISTRICT	05/84
07-40101	A/S/K EDUCATIONAL INSTITUTE	04/84
07-40107	BLUE HILLS HOMES CORP	08/84
07-40108	BLUE HILLS HOMES CORP	08/84
07-40109	MCREL	08/84
08-30017	UNIVERSITY OF SOUTHERN COLORADO	06/84
08-30019	COLORADO COMM ON HIGHER EDUCATION	09/84
08-30020	COLORADO DEPT OF EDUCATION	06/84
08-40101	PUEBLO VOCATIONAL COMMUNITY COLLEGE	05/84
09-30003	HAWAII STATE BOARD OF VOC ED	07/84
09-30055	SAN DIEGO COLLEGE OF MED & DENT ASST AND AMERICAN BUS COLLEGE-TECH DIV	09/84
09-30062	CALIFORNIA STATE DEPT OF EDUCATION	08/84
09-40002	NEVADA STATE DEPT OF EDUCATION	06/84
09-40050	ARIZONA STATE DEPT OF EDUCATION	07/84
09-40101	FREDERIC BURKE FOUNDATION	05/84
09-41534	UNIVERSITY OF CALIFORNIA AT DAVIS	08/84
10-30006	OREGON STATE SCHOLARSHIP COMMISSION	08/84
10-40002	IDAHO STATE DEPARTMENT OF EDUCATION	05/84
10-40013	OREGON STATE SCHOLARSHIP COMM	09/84
10-40103	NW RURAL OPPORTUNITIES INC	04/84
10-40104	OFFICE OF POSTSECONDARY EDUCATION	05/84
10-40105	IDAHO STATE COMM FOR THE BLIND	05/84
11-30033	GRP OPNS SUPPORT SVCS INC	05/84
11-40100	UNAUTHORIZED USE OF TELEPHONES	07/84

SCHEDULE OF ACCOUNTS RECEIVABLE

The Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill of 1980 directed the Inspectors General to include in their semi-annual reports a summary of the total amounts due their agency or Department, as well as amounts overdue, and amounts written off as uncollectable during the reporting period. The following schedule was provided by the Financial Management Service for inclusion in our semi-annual report. The accounts receivable statistics have not been audited by the OIG. We are therefore unable to attest to the accuracy of the data provided.

SCHEDULE 9 TF-220	REPORT ON STATUS OF ACCOUNTS AND LOANS RECEIVABLE DUE FROM THE PUBLIC		AS OF SEPTEMBER 30, 1984
BUREAU OR FUND NAME Consolidated	BUREAU IDENTIFICATION NO. 91-00-0001		FUND ACCT. SYMBOL
	ACCOUNTS RECEIVABLE	LOANS RECEIVABLE	OTHER RECEIVABLES
Section I: RECONCILIATION			
1. Beginning receivables	458,854,652	16,258,296,441	556,883,989
2. Activity			0
a. New receivables during the fiscal year	557,351,752	1,813,884,88.	44,952,000
b. Repayments on receivables	(350,349,525)	(475,667,388)	0
c. Reclassified amounts	46,594,193	234,816,695	(55,681,323)
d. Amounts written off	(1,811,335)	(319,376,838)	(6,294,000)
3. Ending receivables	666,439,737	18,706,274,484	493,960,586
Section II: OUTSTANDING RECEIVABLES			
1. Current receivables			
a. Not delinquent	357,832,884	107,355,594	XXXXXXXXXXXXXXXX
b. Delinquent			
(1) 1 - 30 days	14,976,190	914,437	XXXXXXXXXXXXXXXX
(2) 31 - 90 days	10,391,983	1,846,690	XXXXXXXXXXXXXXXX
(3) 91 - 180 days	30,638,664	177,382,329	XXXXXXXXXXXXXXXX
(4) 181 - 360 days	36,767,111	265,672,838	XXXXXXXXXXXXXXXX
(5) Over 360 days	285,838,985	2,463,253,257	XXXXXXXXXXXXXXXX
Total delinquent receivables	358,606,853	3,008,888,534	XXXXXXXXXXXXXXXX
2. Noncurrent receivables	XXXXXXXXXXXXXXXX	7,595,827,886	453,960,586
3. Total receivables	666,439,737	18,706,274,484	493,960,586
Section III: ALLOWANCES AND WRITEOFFS			
1. Total allowances for uncollectable accounts beginning of period	19,357,529	1,381,647,435	258,143,134
2. Total actual writeoffs during the period	(1,811,335)	(319,376,838)	(6,294,000)
3. Adjustment to allowances for the period (provision for loss expense)	17,549,867	1,929,764,385	0
4. Total allowances end of period	35,095,252	2,983,935,982	243,859,134
Section IV: ADMINISTRATIVE ACTIONS			
1. Delinquent accounts referred to agency counsel			
a. Number	21	4	0
b. Amount	5,878,485	5,648,000	0
2. Delinquent accounts outstanding with the Department of Justice			
a. Number	86	19,795	19,711
b. Amount	491,753	22,443,000	18,818,000
3. Delinquent accounts settled by the Department of Justice during the fiscal year			
a. Number	2	2	0
b. Amount	27,374	935,000	0

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SCHEDULE 9 SF-220	REPORT ON STATUS OF ACCOUNTS AND LOANS RECEIVABLE DUE FROM THE PUBLIC	AS OF SEPTEMBER 30, 1984
BUREAU OR FUND NAME	BUREAU IDENTIFICATION NO.	FUND ACCT. SYMBOL
Consolidated	91-02-0501	

	ACCOUNTS RECEIVABLE	LOANS RECEIVABLE	OTHER RECEIVABLES
Section V: RESCHEDULED RECEIVABLES			
1. Current rescheduled receivables			
a. Not delinquent	359,562	87,299,000	XXXXXXXXXXXXXXXXXX
b. Delinquent			
(1) 1 - 30 days	12,243,340	37,851,000	XXXXXXXXXXXXXXXXXX
(2) 31 - 90 days	6,368,525	38,449,985	XXXXXXXXXXXXXXXXXX
(3) 91 - 180 days	2,355,944	25,332,102	XXXXXXXXXXXXXXXXXX
(4) 181 - 360 days	7,851,139	11,883,352	XXXXXXXXXXXXXXXXXX
(5) Over 360 days	19,297,000	100,355,615	XXXXXXXXXXXXXXXXXX
Total delinquent rescheduled	48,425,757	219,252,944	XXXXXXXXXXXXXXXXXX
2. Noncurrent rescheduled receivables	XXXXXXXXXXXXXXXXXX	0	4,702,638
3. Total rescheduled receivables	48,988,719	306,461,944	4,702,638
Section VI: INTEREST, PENALTIES & ADMINISTRATIVE COSTS ON DELINQUENCIES			
1. Interest			
a. Beginning balance	1,332,436	0	0
b. Assessed during the fiscal year	1,638,350	0	0
c. Collected during the fiscal year	(327,311)	0	0
d. Written off during the fiscal year	(2,355,940)	0	0
e. Ending balance	278,735	0	0
2. Penalties			
a. Beginning balance	0	0	0
b. Assessed during the fiscal year	0	0	0
c. Collected during the fiscal year	0	0	0
d. Written off during the fiscal year	0	0	0
e. Ending balance	0	0	0
3. Administrative costs			
a. Incurred during the fiscal year	0	0	0
b. Recovered during the fiscal year	0	0	0
Section VII: ADDITIONAL DATA			
1. Number of receivables (Section II)			
a. Total not delinquent	47,383	7,855	XXXXXXXXXXXXXXXXXX
b. Total delinquent	1,814,730	1,666,725	XXXXXXXXXXXXXXXXXX
2. Number of receivables collected (fiscal year to date - Section I)	148,612	643,872	0
3. Range of interest rates assessed on delinquent accounts	0 TO 56	0	XXXXXXXXXXXXXXXXXX

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U.S. DEPARTMENT OF EDUCATION

INSPECTOR GENERAL INTEGRITY GUIDES

Exhibit 1

Official Travel

Inspector General Integrity Guide

The purpose of these guides is to increase employees' awareness of their responsibilities for preventing and eliminating fraud, waste, and mismanagement in the conduct of official business and in administration of Department programs. The guides are issued periodically to appropriate administrative and/or program personnel. This guide discusses the topic of fraud and abuse in official travel by Department employees.

OFFICIAL TRAVEL

In the conduct of Departmental business it occassionally becomes necessary for individuals to travel to temporary duty stations (TDY), or to transfer permanently to different locations. Official travel should be conducted at ED expense only when it is deemed to be the most advantageous way to efficiently conduct Departmental business. Reasons for official travel may include on-site review of an ED funded project, training or conference purposes, to provide necessary or specialized expertise at a particular ED location, or other various circumstances. While there are many different needs and various types of official travel, there are some general policies that apply to all official travel. They include:

- Travel must be authorized or approved by the head of an agency or by an official to whom such authority has been delegated;
- Travel must be appropriately justified; and
- Travel must be conducted in a manner which will result in the greatest advantage to the Government.

The Government pays for transportation expenses as well as for other expenses incurred in connection with official travel. Allowable expenses may include transportation fares, meals, lodging, official communications, or other costs incident to the conduct of official business. Upon return, the traveler must submit a completed travel voucher, which documents the employee's claim for reimbursement. (For more detailed information, refer to the Federal Travel Regulations, FPMR 101-7, or related ED Administrative Communications System issuances, available from your executive officer.)

ED spends over $5 million per year on official travel. The funds are to be used prudently and safeguarded from abuse and fraud. Regulations require that the method of transportation used in official travel should be that which is of greatest advantage to the Government when considering costs involved, timeliness, physical accessability, etc. When reasonably available, "common carrier" transportation (air, rail, or bus) should be used.

Under certain circumstances, automobile travel may be considered to be the most suitable means of transportation. Also, an automobile may be necessary for local travel after reaching a TDY destination (by common carrier). In such cases, the first resource should be a GSA contracted rental automobile. Otherwise, use of a Government-owned vehicle (GSA car) should be considered. For local

travel near one's permanent duty station, a GSA vehicle should be the first resource. The official use of any POV, rental car, or GSA vehicle must be approved in advance.

PRIVATELY-OWNED VEHICLE

It may be determined that the use of an employee's privately owned vehicle (POV) is the most advantageous mode of transportation, as in an extended TDY assignment or in a permanent change of duty station (transfer). Reimbursement for use of a POV is based on actual mileage driven or on standard mileage guides, and any substantial deviation must be fully explained.

Case Example

The ED Finance office referred information to the OIG concerning questionable POV mileage claimed by an employee on change of duty station travel vouchers. It was reported that the employee had overstated mileage driven by 1,000 miles, which resulted in a claim for reimbursement of substantially more than that to which the individual was entitled. The discrepancy was noted because the Finance office employee was knowledgeable of the actual distance between the two particular cities. Further discrepancies were disclosed during the investigation, and the individual was subsequently found guilty of two counts of making false statements. The employee was sentenced to two concurrent two-year prison terms, which were suspended, and was placed on three years of supervised probation. The individual was also fined a significant amount, and was terminated by the Department.

GOVERNMENT-OWNED VEHICLE

At times, local travel in the area of an employee's permanent duty station may be required. Again, such travel should be conducted in the manner most advantageous to the Government. This may be by GSA car, bus, subway, taxi-cab, or POV. Use of a GSA car should be the first resource considered. Employees should be mindful that GSA cars are intended to be used solely for official business, and any deviation can result in disciplinary action. The penalty required by law for misuse of a Government-owned vehicle is, at a minimum, 30 days suspension from duties without pay (31 USC 638).

Case Example

An allegation was received by the GSA/OIG Hotline that a Government-owned vehicle had been used for unofficial purposes during a weekend. A private citizen had observed an individual loading what appeared to be personal items into a GSA car in front of a suburban apartment building. Based on the information provided, GSA identified the vehicle as being assigned to ED, and referred the matter to ED/OIG. An investigation disclosed that the car was principally assigned for official use by an ED employee. The individual was interviewed and subsequently admitted that the car had been used for moving personal belongings to a new residence. As a result, the employee was suspended from duties for 30 days.

OTHER LOCAL TRAVEL

Reimbursement for other forms of local travel is made through use of a Claim for Reimbursement, or SF 1164. These claims should reflect the actual amount of fares paid by the employee or, for POV's, the actual mileage driven. Such claims usually involve smaller sums of money than long-distance travel vouchers, and are therefore vulnerable to abuses which may be less noticeable to approving officials. As on travel vouchers, a false claim is a violation of Federal criminal statutes as well as employee Standards of Conduct.

Case Example

The ED Finance office forwarded copies of claims for reimbursement, submitted by an ED employee, which appeared to be excessive for the local taxi travel reported. An investigation disclosed that one claim had been altered after it was approved by the employee's executive officer, and that the approving signatures on three other claims had been forged. The employee subsequently admitted to the fraud. Prosecution was declined because of the small amount of money involved (less than $30). However, the individual was promptly terminated by the Department.

CHANGE OF DUTY STATION

It is sometimes necessary to permanently reassign an employee to a different geographical location. Such transfers, officially referred to as changes of duty stations, should be conducted only when they are in the interest of the Government, and not primarily for the convenience or benefit of the employee or at the employee's request. A relocating employee must agree in writing to remain in Government service for at least 12 months after the transfer, or be held liable for repayment of expenses involved. The Department pays for the transfer, including travel by the employee and immediate family, moving expenses for household goods, temporary lodging, and costs involved in residence transactions.

Case Example

An allegation was received by the OIG Hotline concerning false claims made by an employee in connection with change of duty station travel. An investigation disclosed that the employee had claimed reimbursement for travel by dependents which was not actually performed, and for motel accomodations not actually used. The employee pleaded guilty to the false claims, was sentenced to one year of supervised probation, and was ordered to make full restitution of fraudulently received funds. Prior to sentencing, the subject voluntarily terminated employment with ED and returned over $3,000 to the Department.

GRANTEE TRAVEL

The administration of ED grant projects and other such programs may require official travel by persons associated with the grantee organizations. These projects will usually include specific travel budgets for proposed expenditures, with approval by appropriate ED program officials. Since these agencies are not officially ED components, control of travel performed at ED expense becomes more difficult than official Departmental travel. Therefore, ED program officers must exercise their best judgement when approving ED funds for such purposes, and should not hesitate to act on any apparent abuses.

Case Example

OIG audits of travel and conference costs in one state disclosed significant misuse of funds provided through elementary and secondary education programs (then known as Title I programs). The audits - one a review of the state's department of education, the other a review of costs incurred by a single local education agency within the state - noted numerous instances when the Title I program had been improperly charged for travel and attendance at conferences and meetings which were not related to Title I activities. The improper charges included trips to amusement parks and entertainment events, tours to cities such as San Francisco, Mexico City, and Honolulu; and a non-Title I "workshop" in Reno, Nevada. The OIG recommended refund of over $1 million in unallowable costs, and referred the matter to ED program officials for resolution.

YOUR RESPONSIBILITY

These are a few examples of the various types of fraud and abuse perpetrated in connection with official travel. ED employees whose duties involve official travel in any way - travelers, approving officials, and Finance personnel - have the responsibility for ensuring that neither the Government nor the taxpayers get cheated through such abuses. As in any official matter, employees have an obligation to maintain their own personal integrity and to report only truthful information. The few dollars which might be temporarily gained through submission of fraudulent travel documents are not worth the criminal and/or administrative sanctions, and the permanent record thereof, that result from such actions.

Anyone who is aware of travel fraud or abuse should report the information to the Office of Inspector General. The Inspector General's Hotline telephone number is (FTS or 202) 755-2770, and reports may be made anonymously or in confidence. You may also report in writing to:

Inspector General's Hotline
P. O. Box 23458
Washington, D. C. 20026

GPO 908-243

Grants and Contracts

Inspector General Integrity Guide -
GRANTS AND CONTRACTS

The purpose of these guides is to increase employees' awareness of their responsibilities for preventing and eliminating fraud, waste, and mismanagement in the conduct of official business and in the administration of Departmental programs. The guides are issued periodically to appropriate administrative and/or program personnel. This is our fourth guide, and it discusses the topic of fraud and abuse in Departmental grants and contracts.

THE PROCESS

While both grants and contracts fulfill a Departmental need or service, the Government contracts process is different than the grants process. The grantee receives Government funds which are then used for specified purposes. A contractor, however, is required to perform according to strict standards before the contractor has earned the funds which have been obligated. While a grant may be used when the government wants to provide support or stimulation for a statutorily authorized purpose, a contract must be used to acquire goods or services for the direct use or benefit of the Federal Government. Notwithstanding the differences in grants and contracts, there are similar features. For both contracts and grants, the initial step is for the Department to meet the need stated in law (for a program, service, or product). The next step is to determine the source and the amount of the funding to be provided. After the needs, personnel and funding levels are determined, grant applications or contract proposals are solicited. Applications/proposals are reviewed and evaluated for quality of the proposed grant project or contracted service. Management officials of the Assistance Management and Procurement Service (AMPS), review the proposals for financial soundness and suitability. Once an initial selection has been made, negotiations may be conducted toward reaching a final agreement. (For specific procedures, refer to Temporary Departmental Directive "Procurement Planning" for contracts; and the Education Department General Administrative Regulations for grants.)

After the awarding of a grant or contract, program officials are responsible for monitoring compliance with the agreement and the quality of performance and progress. Management officials monitor the flow of funding to the recipient as well as the recipient's financial administration of the funds. Normally, at the end of a grant or contract, a final or "close-out" review is conducted by the Department in order to ensure that the objectives were met, and that the funds were satisfactorily used for the purposes intended.

GRANTEE MISUSE OF FUNDS

Misuse of funds can occur in different ways. Some examples are using grant funds to pay for:

- unrelated project operations;
- unauthorized/unrelated purchases;
- services not performed; and
- unrelated conference, travel, or other expenses.

ED program and management officials must be mindful of such possibilities in their monitoring of recipient performance. They should review recipients' financial and administrative records, as well as reports of expenditures pertaining to the project, to possibly disclose occurrences of misuse of funds. Additionally, qualified program reviewers must evaluate projects' progress

and determine whether quality is commensurate with amounts of funds expended.

Case Example

An audit revealed the apparent misuse of research grant funds. An investigation was made of the project, which disclosed frequent travel abroad by a grantee official in order to conduct foreign workshops related to the project. The costs of the foreign program were higher than expected. In order to pay for the high costs of the foreign program, the official's spouse was placed by the officials on the grantee's payroll as a three-month summer employee each year. However, the spouse performed no work for the project and was essentially a "ghost" on the payroll. This fraud was perpetrated for several years, resulting in a total of nearly $25,000 in unearned, misused funds. The grantee official was charged with two counts of filing false claims for services never performed, and was sentenced upon pleading guilty. Closer monitoring by ED, and review of salary payments, could have prevented this loss of funds.

SUBCONTRACTING

Most contracts contain specific provisions regarding any perceived subcontracting. Grantees may be required to obtain prior approval from ED before subcontracting for over $5,000, and must conduct all such procurements in accordance with the Education Department General Administrative Regulations (EDGAR). EDGAR requires that all procurements involving Federal funds must be conducted in a free, open, and competitive manner. Further, grantees must assure that some form of price or cost analysis of the subcontractors' proposals is performed. For purchases in excess of $10,000, grantees must be able to provide the following:

- the basis for contractor selection;
- justification for lack of competition when bids or offers are not obtained ("sole source" contracts); and
- the basis for the award cost or price.

Case Example

Some program officials were concerned about the number of grants awarded which included subcontracts for evaluations of the grant projects. An OIG audit disclosed that a number of the evaluation subcontracts over $10,000 had been awarded without competition. The contracts had been awarded on a sole source basis to two particular firms, without justification. Further, it was found that the fees charged by the contractors were higher than those charged by other firms for similar services. Both program and management officials had been remiss in not requiring the grantee to follow competitive procurement practices or inquiring as to the grantee's justifications for sole source awards.

As a result of the audit, administrative action was taken to initiate a project to make program officers more aware of EDGAR provisions for competitive procurements by grant recipients. Program and management officials were instructed to monitor procurements by grantees closely to ensure that the procedural requirements of EDGAR are fully exercised.

EMPLOYEE VIOLATIONS

Violations can occur in the earliest stages of the process, often as a form of "preselection" of a grantee or contractor by a Department employee. In such cases, a potential applicant may be given an unfair advantage over other applicants through the premature release of a project's "statement" or "scope of work" document (the objectives of the proposed project). Work plans may be designed so that only one applicant or bidder could conceivably qualify, or a "sole source" contract is used for a project that should appropriately require competition. Any of these actions would be in violation of one of the Standards of Conduct for Education personnel: To maintain complete independence and impartiality (which is especially important for procurement personnel).

Case Example

An investigation disclosed that ED program officials improperly coerced an ED contractor to procure the services of a particular consultant and to pay the consultant with contract funds. The consultant was performing, and being paid for, services which were not within the scope of the contract. The first several invoices submitted by the consultant were paid by the contractor. However, an official with the firm refused to pay subsequent invoices based on the questionable quality of the consultant's work.

In order to pay the consultant, ED officials arranged the development of a new contract which was written in such a way as to assure that only the consultant could be selected.

Prosecution in this case was declined, mainly because the statute of limitations was about to expire. Instead, it was recommended that the Department take significant administrative action concerning the employees involved. All but one had left the Department; disciplinary action was taken against the remaining employee.

POST-EMPLOYMENT

While a Department employee is not prohibited from seeking other employment, caution should be exercised if the prospective employer has dealings with ED in any way. Federal law prohibits certain "post-employment" activities such as a former Department employee engaging in matters where there was previous official involvement. The purposes of these restrictions are to avoid the situation of an individual "switching sides"; to eliminate any potential influencing of former co-workers; and to avoid the situation of an individual using privileged information gained from previous employment.

Case Example

An ED employee whose position involved frequent contact with an ED contractor was offered a position with the outside organization. The offer was not made as a favor or in exchange for preferential treatment, but was made solely on the ED employee's qualifictions. Nevertheless, the employee appropriately sought advice from the Office of General Counsel prior to taking any action. Based on OGC's recommendation, and in accordance with applicable regulations, the employee officially notified his superiors of his consideration and requested to be disassociated from any further official dealings with the contractor. Thus, a potential, conflict-of-interest situation was avoided, and there were no repercussions when the employee subsequently accepted a position with the contractor organization.

INDICATORS OF FRAUD

There are essentially three specific Standards of Conduct for employees involved in Departmental grants and contracts which supplement the Department's standards for all employees. These are provided below, along with indicators of possible impropriety (not all-inclusive):

1. Maintain Complete Independence

   - Close relationship with potential proposer
   - Excessive business with one firm
   - Inappropriate requirements, such as:
     - tailored to a specific firm or brand
     - geographic restriction
     - unreasonable delivery dates
     - unnecessary technical requirements
     - overly demanding performance records
   - Excessive use of sole source
   - Conflict of interest
   - Proposals which closely match agency estimates
   - Use of former Government employees
   - Short turnaround for proposals
   - Approvals of additional services or products which were not in original procurement request
   - Modifications or changes in contract without appropriate justification.

2. Do Not Use Your Position as a Representative of the Government for Personal Benefit

   - Procurement official offered/accepted position with contractor
   - Close relationship with potential proposer
   - Recent investment or stock in proposer/contractor company

3. Do Not Accept Gifts, Gratuities, Favors, Entertainment, or Loans

   - Frequent lunches with proposer/contractor
   - Tickets to entertainment events
   - Any sudden change in lifestyle

YOUR RESPONSIBILITY

ED employees whose positions involve participation in grant and procurement matters must be mindful of the great potential for fraud and abuse in these areas, and are responsible for taking prompt action whenever such an occurrence is suspected. The presence of any of the above-described suspect indicators in a given grant or contract matter may represent the possibility of impropriety and the need for closer review by appropriate officials or the OIG.

Through appropriate monitoring efforts and project evaluations, substantial monetary losses to the Department can be avoided or disclosed. Any apparent irregularities or discrepancies in a recipient's records or performance should be brought to the attention of appropriate program or management officials. Any indications of potential criminal violations should be immediately reported to the Office of Inspector General at the regional or headquarters offices. Such reports may also be made (anonymously or in confidence) to the OIG Hotline. The Hotline telephone number is (202 or FTS) 755-2770. Reports may also be made in writing and sent to:

Inspector General Hotline
P. O. Box 23458
Washington, D.C. 20026

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INSPECTOR GENERAL HOTLINE

Anyone knowing of fraud, waste, or mismanagement involving Department of Education programs or personnel should call or write the **Inspector General Hotline.**

The **Hotline** telephone number is **(FTS)** or **(202) 755-2770.** The mailing address is:

Inspector General Hotline
P.O. Box 23458
Washington, D.C. 20026

Individuals wishing to report such activities may also contact the nearest Regional Inspector General at the following locations:

CITY	REGION	TELEPHONE
Boston, MA	I	(617)223-3388
New York, NY	II	(212)264-4104
Philadelphia, PA	III	(215)596-1021
Atlanta, GA	IV	(404)221-2087
Chicago, IL	V	(312)353-7891
Dallas, TX	VI	(214)767-3361
Kansas City, MO	VII	(816)374-6473
Denver, CO	VIII	(303)844-4517
San Francisco, CA	IX	(415)556-6726
Seattle, WA	X	(206)442-1482
Washington, DC	HQ	(202)755-2770

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